

# **SUCCESSFUL SUPERMARKETS IN LOW-INCOME INNER CITIES**

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## EXECUTIVE SUMMARY

The purpose of this study was to investigate successful supermarkets in low-income inner-city communities throughout the United States. This was done because of a concern that there are too few supermarkets in such areas and because of the characteristics of supermarkets which sell a large variety of quality foods at reasonable prices.

The study describes 14 supermarkets in 10 cities, selected from a nationwide group of 250 supermarkets identified as successfully doing business in large city, low-income areas. The results of the study show that there are some thriving supermarkets within large city low-income areas -- that it is possible for supermarkets to operate successfully in such areas. The study thus offers direct evidence that the normal channels of retail food trade -- modern supermarkets -- can serve to meet the evident need for better access to quality food by many residents of the inner cities.

The study identifies factors critical to the success of these supermarkets as well as other factors which encourage the entry and retention of inner-city supermarkets.

Further, the study argues that inner-city supermarkets, used to their full advantage, can promote good dietary habits and can positively affect the use of food stamps, the women, infants and children program (WIC) and nutrition education programs.

The study found that the successful supermarkets were the result of professional supermarket management being attuned to the needs and wants of the specific communities they served. Their success was augmented when the supermarkets, the cities and community development organizations cooperated to create viable food shopping opportunities in the inner city.

Additional findings of the study include:

- Some supermarkets have developed reasonable solutions to the on going problems which have plagued inner-city supermarkets for 25 years.
- While many supermarkets left the inner city during the 1960s, many stayed and successfully served their communities.
- Others have returned and succeeded. In one case a major chain has developed from a premise that adequately serving the needs of lower-income customers can be profitable to the company and the community it serves.

- These supermarkets successfully address the issues of security, volume, labor and operating costs, all of which are difficult to achieve in the inner city.
- Close working relationships with community development organizations and city governments augment the efforts of supermarkets to open and successfully operate in difficult socio economic conditions.
- These supermarkets deliver a variety of reasonably priced, quality foods in convenient locations.
- The supermarkets employ and train a significant number of local community residents.
- The supermarkets have frequently anchored new shopping centers, of three to twenty stores, which promote economic development and revitalize the local communities.
- All the supermarkets studied appear to be a source of pride and hope to their customers.

#### POSTSCRIPT

The first draft of this study was completed on April 30, 1992 -- the day Los Angeles erupted in areas previously investigated for this report. In the three intervening months further investigations, highlighted in a postscript below (pp.27-28), have confirmed the findings of this report.

*...food is elemental, and that makes selling groceries a life-or-death matter for both the customers and the stores.*  
*The Economist, June 1992*

## 1. THE BROAD ISSUE: INNER-CITY'S ACCESS TO SUPERMARKETS

### A. Purpose of the Study

Despite America's abundant food supply and state-of-the-art distribution system, the low-income areas of large inner cities are not served with a sufficient variety of quality food stores. This is the result of a relatively low ratio of supermarkets operating in the country's inner cities.

The purpose of this study is to determine how to improve inner-city access to quality food through normal channels of distribution. It seeks to do so by identifying successful inner-city supermarkets and by isolating concrete factors that would encourage the establishment, sustainability and viability of supermarkets in inner-city communities. This focus on improved access of inner-city households to supermarkets is not to suggest that supermarkets should be the sole source of food to inner-city residents. Rather, it is based on the observation that supermarkets are food stores which carry a full line of merchandise, including meat and fresh produce, and offer this wide variety of food at reasonable prices.

### B. Why Supermarkets Are Important To The Inner City

Supermarkets are a powerful element of service for consumers. They are the food store of choice for Americans, who spend 75% of their food dollars in their favorite supermarkets.<sup>1</sup> The industry defines supermarkets as self-service food stores doing a minimum annual volume of two million dollars. For the purposes of this study, the stores studied are the size of the average American supermarket doing a minimum volume of \$100,000 each week. This larger volume provides the stores with the capacity to carry sufficient goods and offer services adequate to serve its customer needs.

Some of the proven advantages of supermarkets to the consumer are:

- lower food costs, hence the opportunity to buy a higher quality selection of foods within a given budget;

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<sup>1</sup> 1992 Marketing Guidebook, (Stamford, Connecticut: Progressive Grocer, 1991), Consumer Section, p. 1.



- the opportunity for the shopper to buy a wide variety of various foods, simplifying the task of choosing more balanced diets;
- consumer education featuring budget and nutritional advice and the promotion of healthy diets, utilizing social marketing techniques at point-of-purchase; and
- the convenience of one stop shopping for food and related products.

### C. Potential Of Inner-City Supermarkets

The focus on supermarkets in the inner city goes beyond the concerns of food supply and food costs. Inner-city supermarkets, using their full resources, have the potential to promote good nutrition among food stamp users and WIC program participants. The role of good food markets' capacity to promote nutrition was summed up by Dr. Sylvia Lane at a 1978 USDA Food Policy Conference.

*Improving the diets of the poor involves several efforts:*

- *Increasing their access to food....*
- *Modifying or adding to the food delivery system to facilitate access for the poor to food of acceptable quality at prices comparable to what others pay for the same products.*
- *Increasing their consumer economic skills, especially in effective and efficient buying.*
- *Increasing their level of applicable nutritional knowledge and skills in food selection, preparation, storage and use.*

*Education to amend food choices involves changing tastes and preferences in some cases and enhancing or implementing knowledge and skills in others. Improvement of the diets of the poor in this manner should be an explicit policy.<sup>2</sup>*

A framework for achieving good nutrition requires adequate resources, quality food, appropriate information and personal choice. Food stamps and the WIC program provide the necessary resources. Supermarkets provide the access to a variety of affordable, quality food and access to information through merchandising and marketing techniques.

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<sup>2</sup> Sylvia Lane, "Poverty, Food Selection and Human Nutrition", *Agricultural Food Policy Review: Proceedings of Five Food Policy Seminars*, ESCS USDA: September 1978, p. 35.

(1.) Access To Quality Food

Availability of convenient food stores where good quality food can be purchased is necessary. Two examples:

- "Twinkies cost \$2.89, and ten oranges cost \$1.99. In choosing oranges, one saves 90 cents, 1000 calories and 60 grams of fat. A store that has no oranges eliminates that choice. Fruit should be as available as processed food".<sup>3</sup>
- "A simple combination of the right foods can be nutritious. Breakfast cereal with milk and fruit is not only quick, easy and inexpensive, it can be the key to a nutritionally balanced diet for senior citizens. *'For those wanting an easy way to improve their diet, the evidence about a diet heavy in milk, fruit and cereals, should come as good news. Increasing these foods is easy to do - it's not a lot of work and it can improve your*

(3.) An Example - The 5-A-Day Program

*"Better diets will mean longer, healthier lives for the young and extended independence for the aged, which will lead to the new American Revolution. . . It is in prevention that each of us can make the most lasting reform in our health care system. . . Prevention depends on access to food and sound information. The 5-A-Day Program is a current example of the elements of the food system working together toward better health and nutrition."*<sup>6</sup>

Launched in October, 1991 by the National Cancer Institute and the Produce for Better Health Foundation, the 5-A-Day Program is a produce promotion campaign designed to increase Americans' consumption of fruits and vegetables. The program consists of extensive retail initiatives and a consumer education campaign.

The 5-A-Day program is being promoted by retailers representing more than 24,000 chain and independent supermarkets. It utilizes the supermarkets' capacity to address consumers at the point of purchase with in-store displays, merchandising materials and advertising.

Effective, efficient supermarkets can be a first link in the chain of preventive health care for inner-city residents.

D. Supermarkets' Role in Inner-city Revival and Development

Supermarkets in the inner city can have a positive effect on their surrounding communities. The presence of a viable supermarket in a neighborhood is a sign of economic life and community vitality. As a stabilizing neighborhood institution, a supermarket in a well-chosen inner-city location can help lead to the regeneration of that neighborhood and of the inner-city generally.

Frequently supermarkets anchor shopping centers of from three to twenty stores, attracting other shops and local entrepreneurial efforts amenable to the community. The supermarket and adjacent commercial enterprises are a source of employment and training for significant numbers of local community residents.

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<sup>6</sup> C. Everett Koop, address to United Fresh Fruit and Vegetable Association, in *The Packer*, March 14, 1992, p. 1.

## 2. BACKGROUND ON THE ISSUE OF SUPERMARKETS IN LOW-INCOME INNER-CITY AREAS

### A. The Concept of a Supermarket

Supermarkets are a distinct form of food retailing, selling a variety of high quality foods at reasonable prices and, for most Americans, at convenient locations. They are departmentalized self-service food stores carrying lines of meat, produce, groceries and related food and non-food items, featuring these products at competitive prices.

A sketch of supermarkets' origins, purpose and critical stages of development illustrates their uniqueness. In the 1930s, as Americans were becoming accustomed to the impact of cars, radios and larger cities on their lives, grocery stores remained small corner store operations. Customers were waited on by store personnel who placed the filled orders on counters separating goods from the customers. For meat and produce, customers had to shop at other stores.

#### (1.) Main Developer, "King" Kullen

Doing business this way began to change in the 1930s when Michael Kullen conceived a new approach to food retailing. His methods included a cash-and-carry policy and combined the traditional meat, produce and grocery shops into one operation, creating a complete departmentalized food store.

Combining the best concepts of the department store with the low overhead of chain grocers, Kullen introduced mass food merchandising in stores that were large for their time (6,000 sq.ft.) located in reconditioned old warehouses. He developed the supermarket, a relatively high-volume, low-overhead, self-service, departmentalized food store. Food prices dropped wherever supermarkets opened. Within seven years the ideas generated by Kullen resulted in a meaningful supermarket industry. Sixty years later those ideas are still the basis of modern food retailing around the world.

#### (2.) Operational Fundamentals

Supermarket operations are embodied in concepts of economics, logistics and merchandising.

##### (a) Economics

The economics of supermarkets are based on maintaining a relatively low overhead and relatively high volume operation. Self-service speeds transaction time for each order while lowering labor costs. Lower costs lead to lower prices which promote higher volume.

## (b) Self-service and Departmentalization

Self-service depends on the organization of merchandise in a sequential, logical pattern of shelf location so customer and clerk alike know product location.

Specific shelf location permits skillful allocation of shelf space which enables a grocer to have all products needed without investment in excess inventory.

Self-service, shelf location and space allocation create consumer freedom of choice: the freedom to see, touch and choose particular brands of particular items. Kullen's departmentalization lowered America's cost of food, made one-stop shopping a reality and created a marketplace cornucopia that has consumers the world over envious of American consumers.

## (c) Merchandising

The introduction of departments called for a larger physical plant. The spaciousness led to large displays of product and mass merchandising which emphasized store advertising, display and promotional skills. These still emphasize product appeal, encourage consumer education and development of consumer skills.

Supermarket activities of the thirties continue today. The purpose is the same: to operate profitable businesses by serving consumers well. The University of Chicago Graduate School of Business describes some of its 1992 ongoing supermarket research this way: "In the long run, the things we're working on are going to reduce consumers' costs. We are looking at the quality of the merchandise available, how it is displayed and the variety of things displayed--all of which affect the shopping experience. The faster you can get the consumer out of the store, with as much merchandise as possible, the better off everyone is. There is a big premium on convenience."<sup>7</sup> Just like King Kullen.

## B. Supermarkets in the Inner City

### (1.) How the Inner City Evolved

By the end of the Civil War, people began moving to the city seeking the manufacturing jobs and the civilities that the farm did not offer. They would buy food, not grow it, at first from the general store, then from the grocer and the butcher. Main Street developed into the Downtown central business district which provided 25% of the community's tax revenues. This pattern of growth continued until after World War II.

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<sup>7</sup> Graduate School of Business Bulletin, (University of Chicago: Winter 1991)

Skyrocketing marriage rates, reasonable car prices and inexpensive mortgages after the war made the promise of suburbia as alluring as the city had been to an earlier generation. Customers who formerly shopped in the downtown area moved to the suburbs. Supermarkets, by then retail leaders of the food industry, followed their patrons to suburban shopping centers.

The growth of suburbia resulted in a process of decay of downtown. Involved merchants working with city hall responded with downtown rehabilitation projects. Hotels, department stores and cultural centers were developed to attract people who would return downtown. These projects were accomplished with city planners desiring to retain core business districts and maintain the tax base. Two federally funded programs financed these developments:

- The interstate highway program permitted construction of roads to get motorists in and out of the city quickly. As a by-product, the program resulted in the demolition of old neighborhoods without replacing them.
- The urban renewal program paid for demolition of "slums". Housing on the edge of the business district was replaced with parks, theaters and high rises to accent rejuvenated downtown. Previously stable neighborhoods, lacking conveniences such as supermarkets and cut up by super highways, became further disrupted.<sup>8</sup>

Displacement of families was a prominent phenomenon of urban renewal. Newark, for example, built 3,760 new low-income houses in the late fifties and early sixties, but evicted 12,000 families in the process. Living conditions were so affected by the displacement that by 1964 violent protests, kindled by that frustration, began in inner-city neighborhoods in New York and Philadelphia. The Watts riots followed in 1965, as well as riots in Chicago, Detroit and Newark in 1966 and 1967. The urban problem no longer meant decline of downtown. Now it meant the disruption of civil order attributed to the plight of the poor in inner cities.

#### (2.) Relationship of Inner Cities and Supermarkets

Residents of the inner city experienced not only a decline in housing but the disappearance of the neighborhood commercial sector as well.<sup>9</sup> Supermarkets virtually disappeared. Inner-city residents could travel out of their neighborhoods to a supermarket or could

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<sup>8</sup> Bernard J. Friedan and Lynn B. Sagalyn, *Downtown, Inc.: How American Rebuilds Cities*, (Cambridge, Massachusetts: MIT Press, 1990), p.17.

<sup>9</sup> *Downtown, Inc.: How America Rebuilds Cities*, op. cit., pp. 39-51. The authors consider in some detail the problems caused by urban renewal and interstate highway construction.

shop the local small stores. Reasonable prices and product choices were hard to find.

Some viable supermarkets continued to serve low-income inner-city residents; some supermarket chains never left the inner city. Most supermarkets, however, hesitated to remain or to return to the inner city. Then the urban riots of the late sixties shook the nation. To this day a number of industry executives recall personal experiences or stories of burning stores, destruction and shoplifting during that period. Supermarket management was increasingly frustrated by the lack of security, personnel burnout and soaring insurance rates.

### (3). Awareness of the Problem of Access to Food for the Inner City

During the past twenty-five years, a period paralleling the development of the Food Stamp Program, supermarkets in the inner city have been the focus of frequent studies and reports. The issue of supermarkets first attracted interest following protests over the rapid decline of living conditions within the inner cities in the mid-sixties. Various investigations, studies and news reports on the riots frequently focused on the food aspect of the situation.

### (4.) Implications

The issue of supermarkets in the inner city captured the attention of scholars. Donald Sexton of the University of Chicago in his 1973 study concluded that any effort to improve inner-city food retailing must consider:

- the dearth of supermarkets in inner-city areas;
- the relative decrease of all types of food stores in inner-city areas;
- the lack of mobility of many low-income shoppers;
- the particular mix of services needed or desired by inner-city area shoppers;
- the particular mix of products needed or desired by inner-city families; and
- the employment of inner-city residents by food stores.<sup>10</sup>

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<sup>10</sup> Donald Sexton, Jr., *Groceries in the Ghetto*, (Lexington, Massachusetts: D.C. Heath and Co., 1973), p. 119.

#### (5.) Operating Problems

Reasons supermarkets did not return to inner cities were detailed four years later by Donald R. Marion of the University of Massachusetts:

*" . . . the operating of inner-city stores created a very real problem for most of the firms participating in the study. Inner-city supermarkets . . . had substantially higher operating expenses and lower net profits than supermarkets in other areas. The factors principally responsible for observed differences in operating performance can be mostly grouped into three general problem areas--total sales volume, labor, and crime.*

*The problem... is a most difficult and complex one... it may represent the key to redevelopment of the inner city and to business opportunity for industry firms, in addition to the obvious effect upon food supplies and prices for inner-city residents".<sup>11</sup>*

The problems associated with supermarket operation in the inner city are extensive and interrelated.

- Volume to Offset Higher Costs  
Robert Wunderle, economist and former vice president of public affairs for Supermarkets General, has said that the impetus to go into inner-city markets is the "concentration of population. We know the market is there and we know the market is, for the most part, underserved."<sup>12</sup>

But, population density is not sufficient to cover the additional costs including clogged access roads which increase delivery costs, higher electrical bills due to extensive lighting used as a security measure, higher costs of rents, insurance and city taxes.

- Labor - A Major Operating Expense  
Supermarkets operating with low margins are labor intensive. Since labor can represent as much as 50% of a store's total operating expense, supermarkets seek a stable, high-quality labor force to maintain cost controls. In inner city this can be difficult to attain because of high absenteeism and turnover.

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<sup>11</sup> Donald R. Marion, *Supermarkets in the City*, Cooperative Extension Service, (University of Massachusetts, Amherst: 1974), pp. 37-38.

<sup>12</sup> Stephen Bennett, "Is there Profit in Inner City?", *Progressive Grocer*, December 1988., pg. 48.



- Security Needs  
Only violence itself deters business more than threats to the security of customers, employees and property. Security violations can be life threatening, are costly to supermarkets and to consumers while driving up the cost of doing business.
- City Governance  
Doing business in the inner city requires that supermarket operators deal with the intricacies of a large city's regulatory and permit process. This can be confusing, costly and time consuming to supermarket operators trying to do business in the inner-city area.

City offices have to be dealt with in determining traffic patterns, public transportation plans, rerouting buses and placement of facilities that might contribute to the customer base. Operating methods of city agencies are an important factor in encouraging or discouraging prospective supermarket operators.

A study done in New York City disclosed that primary problems of supermarkets going into the inner city were finding appropriate and affordable space and getting through the City's approval process.<sup>13</sup>

(6.) Impact on the Poor

Sylvia Lane of the University of California, Davis summarized most of the poor's disadvantages with regard to food:

*"Thus the poor are apparently disadvantaged in their food selection by initially having more stringent budget constraints than the non-poor. They often pay higher prices for food, generally because of where they shop, further limiting their access to food."*<sup>14</sup>

The following illustration by Alex Kotlowitz<sup>15</sup> is typical of the hassle the poor have to go through. He tells of a Chicago mother, a participant in welfare: once a month upon receipt of her benefits check, she hired a gypsy cab to take her out of the neighborhood to shop. She went to three stores, all of which

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<sup>13</sup> *Food is Not Like Socks*, Community Food Resource Center, Inc. (New York, New York: August 1988), p.6.

<sup>14</sup> Sylvia Lane, "Poverty, Food Selection and Human Nutrition", *Agricultural Food Policy Review: Proceedings of Five Food Policy Seminars*, (USDA ESCS: September 1978), p. 35.

<sup>15</sup> Alex Kotlowitz, *There Are No Children Here*, (New York, New York: Doubleday, 1991), p. 140-141.

charged less than the local markets which charged as much as thirty percent more for food than other stores did.

### C. Background Summary

We discussed the supermarket as a source of quality food at reasonable prices and other ways in which supermarkets could be of value to low-income residents of the inner city. We noted the role of supermarkets as a vehicle for nutrition education, as convenient one-stop shopping centers, as a source of employment and job training as well as a focus for economic development. We further discussed the continuing day-in and day-out, year-in and year-out problems supermarkets address doing business in the inner city.

While the contributions that supermarkets could make to low-income inner-city residents, who are often Food Stamp and WIC participants, became clear throughout the study, the fact remains that the inner city is still underserved by modern supermarkets. Consequently, many residents are unable to take advantage of such benefits.

### 3. THE PRESENT STUDY: THE POSSIBILITY OF SUCCESSFUL SUPERMARKET OPERATIONS IN THE INNER CITY

#### A. Thesis

The focus of the study is to identify and describe successful supermarkets in low-income inner-city areas and to identify the defining characteristics of these supermarkets, assessing whether they can be generalized as models for replication.

#### B. Methodology

##### (1.) Selection Process of Cities and Supermarkets

###### a. Cities

The municipalities chosen are geographically representative of large urban areas of the nation as a whole. The cases were identified from the larger cities of the country. The cities also had a large concentration of low-income families, specifically Food Stamp and WIC participants.

###### b. Supermarkets

The supermarkets selected are located in urban areas with a high concentration of low-income households. Initially some 250 viable inner-city supermarkets doing business with low-income households were identified through a search of trade literature. These 250 viable inner-city supermarkets were narrowed to a field of 50. Many of the 250 are operations of the same companies and were excluded on that ground. Others are located in smaller cities and were excluded to focus attention on cases from larger urban areas. Further criteria for the cases selected were sales volume and productivity measures of a typical American supermarket as defined by the *Progressive Grocers 1992 Marketing Guidebook*:

- a minimum volume of \$100,000 per week carrying full lines of groceries, meat and produce;
- a minimum of five checkouts;
- carrying at least 15,000 items;
- measuring 17,000 or more square feet;
- employing 33 or more workers; and
- operating approximately 100 hours per week.

An additional selection criterion was that a significant portion of the supermarket's business is done with low-income households. The supermarkets selected have at least 30% of their volume through redemption of food stamps and WIC vouchers. This was determined by discussion with supermarket management and reports in trade periodicals.

Finally, among the 50 cases identified of inner-city supermarkets that met the above criteria, the cases chosen for more detailed study are ones that are highly esteemed by the supermarket industry, community organizations, government officials and media reports.

#### (2.) Information Sought

Information for the study was gathered to address five problem areas to determine why there are so few supermarkets operating in the inner city. The areas were:

- a demonstrated need for the store by the low-income households of the local community due to a lack of available supermarkets within a reasonable distance;
- impetus for development of the store;
- sequential organizational activities;
- special issues of security, volume, labor force; and
- other pertinent issues.

#### (3.) Techniques of Information Gathering

##### Literature Search and Content Analysis

A literature search and content analysis of newspapers, reports, professional and trade journals, television and radio productions pertaining to the subject, academic, industry and government studies were completed.

##### Structured Meetings

Formal meetings and discussions were held with a broad base of industry leaders, community development organization leaders, government leaders and commercial developers in cities across the nation.

##### Interviews

On-site interviews with customers, management and employees were conducted.

### C. Supermarkets and Cities Selected

The cases selected were:

- The New Community Pathmark Supermarket, Newark;
- Dominick's Finer Foods, Chicago;
- Winn Dixie, Liberty City, Miami;
- Country Mart Food Warehouse, Kansas City;
- Restoration Pathmark, Bedford Stuyvesant;
- Waldbaum's, the Bronx;
- C-Town, 110th St, Harlem;
- Finast Supermarkets, Cleveland;
- Boys, and Boys Viva Markets, Los Angeles;
- Cala Foods, San Francisco;
- Fiesta Markets, Houston;
- Giant Foods and Safeway, Washington, DC.

C-Town's volume is slightly less than the criteria called for and is included as a 15th success. Two supermarket failures, initially described by the press as successful, are also discussed.

#### 4. FINDINGS OF THE STUDY

The present study was undertaken to identify successful and profitable supermarkets in the inner city, isolating characteristics of those supermarkets which could lead to their replication.

During the course of the investigation it was necessary to deal with various explanations as to why supermarkets have not been attracted in significant numbers to the inner city. Sales volume, labor supply, security and generally higher operating costs are consistently discussed by supermarket analysts and supermarket entrepreneurs as the operational reasons supermarkets are not attracted to the inner city. Frustration with City Hall in some cities is another problem cited.

The result of this emphasis on the problem areas has contributed to the widespread belief that the inner city does not provide reasonable possibilities for viable and successful supermarket business. The purpose of this study was to examine the actual experience of selected supermarket operations within major inner-city areas to determine whether this pessimistic view is realistic or not. It was found that the inner city does provide significant opportunities for viable supermarket operations, profitability and growth.

##### A. There Are Some Successful, Profitable Supermarkets in the Inner City

Our investigations identified many successful supermarkets in the inner city serving low-income areas. This is so despite the fact that the problems of operating supermarkets in the inner city remain.

These supermarkets are not all new. Pathmark, Waldbaum's, Fiesta, Boys, to name a few, have been operating supermarkets in low-income inner cities for years. Jewel in Chicago never left the inner city nor did Giant and Safeway leave Washington, D.C. What is surprising is that there are more adequate inner-city supermarkets than conventional wisdom suggests, although in many inner-city areas there are still not enough to serve the existing demand.

The study confirms what others have pointed out, that identifiably higher operating costs and lower net profits of the inner-city stores are a concern. This study shows how many supermarkets successfully deal with these issues on a continuing basis through successfully addressing total sales volume, labor and security.

##### (1.) Sales Volume

The cases indicated the necessity for more sales to offset

smaller purchases made by inner-city shoppers who spend less than suburban shoppers. More smaller purchases create higher operating costs for the store than fewer large purchases. Increased volume must compensate for this. In one case, Cleveland's Finast Supermarkets' lower-income urban shoppers average only seventeen dollars a visit, hence stores must serve 30,000 customers a week to produce the revenue that suburban stores gain from 22,000 customers.

Smaller sales can be partially offset by larger volumes made possible by a large customer base. In Newark, the supermarket is located in a community of 93,000 residents. The site is also near a teaching hospital which employs close to 7,000 shift workers and within blocks of a county jail which also employs shift workers. This combination of residents plus work force increases the potential customer base. The store stays open 24 hours a day to attract this entire market. In one Chicago case, the supermarket has 78,000 residents within a one-mile radius. The nearest competition is a mile away in an area where only one-third of the residents own cars.

In Bedford Stuyvesant, the supermarket is situated in a community of 300,000. The relatively small 20,000 square foot store does an astounding \$400,000 weekly volume. In the very large and newly opened Waldbaum's Bronx location, the first week's sales were \$1 million as more than 35,000 customers came through during the first week of operation. In another case, on the edge of Harlem, the supermarket operator chose the ground floor of an apartment building as a location. In this case, a five-block radius provides the sufficient population base the store needs to make it profitable. The store is doing \$4,000,000 annually in 11,000 square feet.

## (2.) Security

The supermarkets in our pool of cases have satisfactory control of the security issue.

The control is manifested by continued vigilance and financial investment. Nevertheless, security is an ongoing major concern of supermarket operators in the inner city. None have eliminated the problem. As Los Angeles so forcefully reminded everyone, no strategy guarantees total success. Each case approaches the issue consistent with its situation and the environment. There are certain discernible and overlapping commonalities: first, security is taken seriously and everyone--customer, employee and potential troublemaker--is aware of it. Uniformed security teams (store, private or off-duty police) are visible; banks of cameras and other electronic devices are evident as are signs describing security measures.

Some inner-city shopping centers use the architectural concept of defensible or secured space. Employed by Alexander Haagen, a

California developer of four inner-city shopping centers, the concept creates an oasis of shopping serenity and safety. There might even be an unobtrusive "tower" or office for police or security. "Security starts with the 6-8 foot cast iron fences around each center...they are unobtrusive. They provide what other centers don't have: total control of access to the center. . . More remote areas...are monitored by TV and infrared motion detectors. Delivery gates...are remotely controlled from command centers. Area lighting is three to five times brighter than industry <sup>16</sup>

Economically they work. The centers average \$350 of annual sales while comparable suburban space yields \$200 per leasable square foot.

In his study of inner-city shopping centers, Richard M. Titus<sup>17</sup> points out that the economic performance of these secured centers is matched by a remarkably low crime rate. One center in Watts had, in one year, only one burglary, three thefts of or from autos and one attempted robbery, while a center in affluent suburban Los Angeles had about eight burglaries, 70 thefts of or from cars and four robberies of persons or businesses. This type of security is effective in ordinary security situations. There is no defense against wholesale riot conditions. The secured space strategy was proven during the Los Angeles riots by four Los Angeles supermarkets described in the cases.

Los Angeles' secured space strategy has served as a pattern in Chicago and Newark.

In Houston and Cleveland, the defensible or secured space security measures are not used. There, the strategy includes store security teams, observation cameras and life size cardboard cutouts of uniformed police officers. The cardboard cutouts serve as a reminder that the flesh and blood officer is nearby.

### (3.) Labor Force

Labor quality, productivity and turnover are continuing concerns in the cases we studied. In each case the supermarkets have explicit high-level interest in recruiting, training and maintaining the best possible employee team. In every case, the supermarkets were sensitive to this role as a source of employment and training for the local community for three reasons. While good employees improve productivity, good local employees improve community relations and the community as well.

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<sup>16</sup> Robert E. O'Neill, "State of the Art Security is Effective - and Costly". Monitor. May 1990., p.28.

<sup>17</sup> Richard M. Titus, "Security Works. Shopping Enclaves Bring Hope, Investment to Blighted Inner-City Neighborhoods", Urban Land, January, 1990, p. 2.



In Chicago, a neighborhood organization screens initial applicants for the supermarket. Hiring procedures established by the Chicago Planning Commission provide in advance that prospective employees be referred and screened by the city job-placement agencies. These agencies then contract with a local community development organization for initial employee placement. In Cleveland, recruiting utilizes several channels of neighborhood groups, including ministers, schools, civic groups and the Urban League.

While all the supermarkets hire from the local community for entry-level positions, they also support career track development. The pride the companies have in the achievements of their employees is matched by the delight employees express in discussing their marketable skills and good futures.

A significant new development in inner-city training was the recent announcement by Vons Companies of the establishment of a special training center in South Central Los Angeles. This center will begin job instruction earlier than usual to give emphasis to the development of work skills for inner-city employees.

The supermarkets have developed reasonable solutions to the ongoing problems of inner-city operations. In all of the cases and in each of the problem areas supermarkets have developed practical solutions to address what were considered the unsolvable problems of inner-city supermarkets. The development of solutions with sufficient commonality to provide operational guidelines to inner-city food distribution is different from the late 1960s.

#### B. The Key to a Successful Inner-city Supermarket is Professional Management

The major finding of the study is that the role of professional management is critical to successful and profitable inner-city supermarkets. In all the cases studied, professional management is the key element for success. In the cases where it was lacking two stores failed.

The term supermarket management includes corporate and store management, that is, both strategic direction and operational implementation. Competence in each area was important in the supermarket cases we studied.

It is management's efforts which have produced the practical, if not perfect, solutions to problems which haunted inner-city supermarkets for so long.

In one case, The Boys Markets in Los Angeles noticed significant demographic shifts in certain areas from a predominately African American customer base to a significantly Hispanic one. Corporate management produced a new logo, Viva,

which encouraged Hispanic shoppers, while The Boys continued to solicit the support of their African American customers using the familiar Boys logo. Store management reminded customers that Boys-Viva was committed to serving the food needs of all their customers.

Another example of excellent inner-city supermarket management was the performance of The Boys during the Los Angeles riots in the spring. As sections of the neighborhood surrounding their stores burned, Boys managers simultaneously boarded up broken windows, encouraged employee-customers who were linking arms around the store to dissuade rioters, and assisted neighbors sweeping up debris. Meanwhile, corporate management put together semi-trailer loads of food and products for free distribution and created campaigns that emphasized their continued commitment to rebuilding the area.

In the inner-city supermarkets we studied, corporate management made policy decisions related to locating in the inner city. It frequently included a vision which allowed management to attempt new arrangements such as joint ventures with the community including those pioneered by Pathmark in Bedford Stuyvesant and Newark, as well as Boys Markets in Los Angeles. In each case, there is sensitivity to the community's needs and desires, manifested by the establishment of equity positions.

#### C. Success is Enhanced by the Cooperation of Local Community Organizations

Success of the inner-city supermarkets we investigated was further enhanced by the cooperation of local community development organizations.

Local community interest in the neighborhood supermarket is not a new phenomenon but in all twelve cases we studied it was focused and effective. We found areas that previously had lacked supermarkets where the residents organized to initiate, support, and/or enter into a working relationship with the supermarket of their choice. The communities organized in various ways. This included non-profit organizations providing specific services, as well as sophisticated non-profit organizations negotiating financial joint ventures with the supermarket industry.

In terms of creating and realizing long term strategies, the Community Development Corporations (CDCs) were most effective. A community development corporation or organization is a private, locally based non-profit organization committed to serving a low-income population. It has an ongoing commitment to a long-term development strategy and has completed at least one project in housing, commercial/industrial, or business development. It is governed by a community-based board.

"The benefits of forming such a partnership is that it makes the company 'part of the neighborhood', said Robert Wunderle, Vice President of Supermarkets General. 'A community organization is in much better position to do that.' But he added that 'there are a limited number of community development organizations that have sufficiently large representation in the community and a financial track record so they can get financing for land acquisitions'."<sup>18</sup>

An early success of New Jersey's New Community Development Corporation is illustrative of what these organizations have done. In the early 1970s it had the goal of providing appropriate homes for raising families in crowded urban areas. New Community, to everyone's surprise, persuaded the state's housing finance agency to accept its design for a mid-rise 102 unit building. Then the organization struggled to persuade builders to take the construction contract to work in the inner city. New Community had to prove it could either eliminate the problems associated with inner-city construction sites or satisfactorily resolve them. It did so and established the track record of an organization that's daring in vision, thorough in planning and responsible in implementation.

In 1978 the Bedford Stuyvesant Restoration Corporation was the first local community organization to organize a supermarket. It created a joint venture between Restoration and Supermarkets General, the company that operates the Pathmark Supermarket and Pathmark Discount Drugstore. The supermarket is 67 percent owned by Restoration and has gross sales of \$23 million annually.

In six of the cases we studied, Newark, Miami, Kansas City, Washington and New York, community development organizations were a major factor in establishing the supermarket. In Newark, the New Community Development Corporation initiated the development of a supermarket. It put together financing for two-thirds ownership of the store and profits flow back into the local organization's projects.

In Miami, the Tacolcy Economic Development Corporation (TEDC) used a start up grant from the Local Initiative Support Corporation (LISC) to develop a supermarket and shopping center. TEDC then secured low-interest loans from sources including the Business Assistance Center, the Economic Development Council of Dade County and the City of Miami.

The Community Development Corporation of Kansas City (CDC-KC) formed a co-developer partnership with the Baptist Ministers Union of Kansas City. This partnership obtained sufficient public/private financial support from local and national organizations to build the shopping center around a supermarket.

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<sup>18</sup> Progressive Grocer, op. cit., p. 48.

In five other cases studied there also was community participation. In the cases of Cleveland, Houston, San Francisco, Harlem and the Bronx, while there was no ownership by a local Community Development Corporation in the supermarket, there was a sensitivity to the community on the part of the supermarkets in matters large and small. For example, in Cleveland, shopping cart coin deposit boxes were removed from shopping carts after the community complained about them as discriminatory.

As described elsewhere, the bonding between the community and the supermarkets is especially visible in the employment-training area. The communities go out of their ways to identify likely local job applicants and often do some of the training. In turn, the supermarkets are well aware of the positive vibrations that productive, local employees create.

Sensitivity towards the community is a characteristic that supermarkets which do well in inner city have, whether the relationship is formalized in a municipal agreement, a joint venture, or held together as are secure friendships between certain families.

Fiesta and Finast, two supermarket groups studied, have no formal relationships with CDOs but have excellent relationships with the community. Each of them was sensitive to community concerns to begin with and was able to move rapidly without need for a specific intermediary to counsel them.

#### D. Success is Enhanced by the Support of the Local City Government

In 1985 the United States Conference of Mayors, confronted with urgent problems of hunger and malnutrition, agreed that "Clearly, comprehensive and systematic approaches for addressing both the urgent and the long-term food needs of city residents should be developed." The conference recommended that cities develop a food policy which would include food retailing.<sup>19</sup>

The motives and degree of city government participation in the development of inner-city supermarkets has varied in the cases we studied. It might be proactive planning, a campaign promise or pressure from local residents.

The importance of city food policy and city administrative practices was considered in some depth in 1988 by the Community Food Resource Center, Inc. CFRC examined access to reasonably priced, nutritious food from the perspective of low-income

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<sup>19</sup> *Municipal Food Policies: How Five Cities Are Improving Availability and Quality of Food for Those in Need*, (United States Conference of Mayors, Washington, D.C.: October 1985), pp. 45-46.

consumers and found many neighborhoods in New York City under-served by supermarkets.

CFRC identified the link between neighborhood supermarkets and access to food by the poor. Their 1988 report, *Food Is Not Like Socks*, recognized the need for the city to work with the supermarket industry. The report recommended the process summarized here:

- Understand the portrait of what exists and establish a shopping access standard.
- Determine what neighborhoods are under-served.
- Work with representatives of the supermarket industry to set strategies for meeting the community food needs.<sup>20</sup>

CFRC recommended that the city coordinate municipal agencies to facilitate dealing with supermarkets. "City Planning, Transportation, Environmental Protection, Fire, Police, Building and Sanitation all interface with supermarket operators for reasons ranging from obtaining zoning variances to locating bus stops to enhancing access to transportation."<sup>21</sup> New York City is creating mechanisms to do this.

The importance of cities working with the development of commercial enterprises is underscored by Richard M. Titus in a study, "The creation of viable shopping facilities is assisted by the availability and commitment of those with expertise in using state and federal programs, urban enterprise zones, tax incentives, loans, grants, and hiring requirements."<sup>22</sup>

The particular form that support of the supermarket by the local city government has taken varied from city to city.

#### (1.) Site Assembly

Assistance with land acquisition or site assembly was one of the major ways the city was helpful in the five cases of Los Angeles, Newark, Chicago, San Francisco and Kansas City.

Los Angeles was offered by Sears Roebuck a store site that Sears had earlier abandoned. Sears said the city could have the

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<sup>20</sup> *Food is Not Like Socks*, Community Food Resource Center, Inc., (New York, New York: August 1988), p.9.

<sup>21</sup> *Food is Not Like Socks*, op. cit., p. 9.

<sup>22</sup> Richard M. Titus, "Turning Things Around: Secure Shopping Centers in the Inner-City", National Institute of Justice of the United States Department of Justice, (Washington, D.C.: 1989).

whole property for free provided it developed the site. Mayor Bradley accepted the challenge and turned to a successful developer, Alexander Haagen, to build a supermarket on the site. Although the structure had to be razed and a new center designed and built, acquisition of the land site by the city was a major incentive for the developer to become involved.

In the case of Newark, the city, after being petitioned by over 12,000 residents, agreed to condemn a final small parcel of land for use as part of the supermarket site. Access to that parcel allowed the development of the shopping center to proceed.

Chicago assisted with the assembly of 22 small parcels of land which became the site of a major inner-city shopping center. The city designated the area as commercial and qualified it as an urban renewal district.

In the San Francisco case, the city of San Francisco Redevelopment Agency purchased the site on which a supermarket was to be established. This was fulfillment of a campaign promise of the mayor. The site was then leased back to the supermarket operator, Cala Foods, Inc. as an incentive for them to go into this particular area.

#### (2.) Traffic Patterns

In Los Angeles at the Willowbrook Center the city subsidized public transportation to the center for shoppers until the proposed light rail was built.

In the cases of Chicago and Newark, the cities cooperated with the developer to reroute traffic for a more favorable flow. These cities also placed strategic traffic lights which expedited favorable traffic patterns.

#### (3.) Financing

Cities frequently provided direct funding or facilitated access to state and/or federal funding. In certain cases, the city government was of direct financial assistance in the development of the supermarket. Miami provided low interest loans to the community development organization which was developing the shopping center. In Los Angeles, the city made available tax abatements. In four cases, Chicago, Bedford Stuyvesant, Kansas City and Los Angeles, the city provided access to state and federal grant and loan packages.

In one case, Chicago, in the process of funding, the city created a breakthrough for community determination of redevelopment guidelines. During the approval process for an Urban Development Area Grant, a task force representing neighborhood interests was established by the local alderman. The task force became responsible for establishing redevelopment parameters. This included matters that the community thought were important such as,

local community job creation. This was the first time in Chicago that community sanctioned guidelines were included as part of the approval process.

The cases verify with one interesting exception that the interest and cooperation of the city government is a key factor conducive to the development of supermarkets in the inner-city. The exception was Houston, where Fiesta, mainly on its own initiative and with little help, just kept buying and building more supermarkets in the inner-city to serve the needs of low-income residents.

When it became known recently that Fiesta was considering opening supermarkets in inner-city Dallas, Dallas Mayor Steve Bartlett and Dennis B. Martinez, Director of the city's Economic Development Department quickly became committed to encouraging Fiesta. The city prepared a proposal for Fiesta encompassing various types of assistance including coordinating city agencies' approvals, City Council's authorization and the issuance of certificates of occupancy.

#### E. Summary and Matrix

There are many successful supermarkets serving low-income areas of large inner cities. They have developed reasonable solutions to the ongoing problems of inner-city operations. Professional management is critical to success. Success is enhanced by cooperation of local community development organizations and city government.

City governments should consider the implementation of systematic approaches to the long-term food needs of city residents as a critical function of the city.

The findings of the study are visually summarized in the following matrix. Some elements are identified that have had bearing on the success of supermarkets in the inner city.



Visual Summary Of Factors Bearing On Success Of Inner City Supermarkets

	Initiative for the Store: By Supermarket Management	By CDO/Community	By City Government	By Private Developer	Participation by CDO: Joint Venture	Services Provided	Participation by Supermarket Joint Venture	Full Ownership	Participation by City Gov't. Financial	Other	Volume of Sales: Weekly - in \$1,000's	Security: Ordinary Methods	Use of "Secured Space"	Labor-Recruitment, Hiring, Training by Local Community	Professional Management
Case 1: Newark Pathmark		X			X		X		X	X	600		X	X	X
Case 2: Chicago Dominick's		X				X		X	X	X	550	X		X	X
Krystle Kleer				X				X	X				X		NO
Case 3: Miami Winn Dixie		X				X		X	X	X	200	X		X	X
Case 4: Kansas City Country Mart Food Warehouse		X				X		X	X	X	350	X		X	X
Case 5: New York Pathmark		X			X		X			X	400	X		X	X
C-Town	X							X			80	X			X
Waldbaum's	X							X	X		1000	X		X	X
Case 6: Cleveland Four Finast Supermarkets	X							X	X		700	X		X	X
Case 7: Los Angeles Boys Markets Vermont Slauson			X		X			X	X	X	250		X	X	X
MLK			X			X		X	X	X	225		X	X	X
Willowbrook			X		X			X	X	X	225		X	X	X
Case 8: San Fran. Cala Foods, Inc.			X					X	X	X	300	X		X	X
Case 9: Houston Fiesta Markets	X							X	X		500	X			X
Case 10: Washington, D.C. Safeway		X			X		X			X	225	X		X	X
Giant-Shaw	X		X		X		X		X		400				X
Mega Foods	X							X	X	X		X			NO

## 5. CONCLUSION OF THE STUDY

As the above findings indicate, there are some supermarkets successfully operating in low-income neighborhoods of large cities which ably serve the populations there.

These supermarkets have successfully addressed the recurring

## 6. POSTSCRIPT

The Los Angeles riots tested the validity of this study's conclusions, the first draft of which was completed during the first full day of the riots and the day after ABC's "World News Tonight With Peter Jennings" reported the problem of inner-city residents' lack of access to nutritious food at reasonable prices caused by the lack of inner-city supermarkets.

Early television reports indicated that several supermarkets discussed in the cases were destroyed. They were not. Within three days Boys-Viva, together with the community, were cleaning up the damage even as management led a public campaign to gather truckloads of foods for free distribution while promoting the theme "rebuilding starts now".

Boys-Viva announced in full page ads that inner-city supermarkets will continue to be a major initiative.

Of equal significance is the recent statement of Lawrence Del Santo, chairman and chief executive of Lucky Stores that the riots will not deter Lucky from opening stores in inner-city areas based on the experience Lucky had with its new market, opened only weeks before the riots. "The store is a short distance from where some of the heaviest rioting and burning took place during the three-day melee but unlike many other businesses, the Lucky Store stayed open through the riots and wasn't damaged or looted. The store is a source of pride for the community that helps make these functional communities," Del Santo said. He noted that it wasn't easy to open the store (Lucky worked closely with the Alexander Haagen Co.). "It took four years of planning, including substantial community involvement, to open the store", one editorial commented. "This involvement may help explain why the market wasn't damaged or looted during the riots."<sup>23</sup>

Lucky's plans to open more stores is a change of emphasis from suburban neighborhoods. Del Santo noted that "These are good customers: they spend on food and are particularly good perishable customers." The Baldwin Hills store is successful enough to be counted among the top 10 percent of the chain's stores in terms of volume.

Roger Strangeland, chairman of Vons Companies, Arcadia, California has announced plans for a \$100 million commitment to build 10 to 12 stores in "undeveloped, underserved areas of Los Angeles."

The expansion will include locating Vons and Tianguis throughout Los Angeles--in urban areas heavily populated by low-

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<sup>23</sup> Supermarket News, August 3, 1992, p. 2

income Black and Hispanic consumers.

"The program will include hiring employees from each local community where the store is located and training them in a special training center that Vons will establish in the target area; that center will begin job instruction earlier and give more emphasis to developing work skills than Vons' existing training provides."<sup>24</sup>

Two other recent announcements are significant. In Cleveland, Finast Supermarkets have announced they will continue building inner-city stores, including a superstore in Boston.

Fiesta Markets, the Houston chain which started as a single store dedicated to serving low-income Hispanics and does \$600 million in 23 stores, 17 of which are in low-income areas, is expanding to Dallas. Don Bonham, Fiesta's president, has said the chain will open at least eight inner-city stores in Dallas. "We felt we'd done all the expanding we could in the inner city of Houston, and we saw underdeveloped opportunities in Dallas presenting themselves" Bonham said.

These positive steps represent not the end of inner-city food retailing problems but a beginning of the end.

All of the organizations discussed in this postscript represent a professional management cadre which is closely attuned to the needs and wants of the inner city. There are other areas, however, where these operators do not have stores and where the low-income residents need the skills that companies like these possess.

On July 21, 1992, the Food Marketing Institute announced an effort to determine what roles supermarkets play in urban-initiative programs. The effort has four objectives:

- to develop data about the specifics of operating inner-city stores with a view to understanding the dynamics of inner-city operations;
- to develop a model communication program to help inform supermarket operators of options in supporting communities;
- to become active in advancing public policy that removes the disincentive on inner-city youth; and
- to develop a task force to work with government agencies, community ctivists and minority leaders.<sup>25</sup>

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<sup>24</sup> Supermarket News, August 3, 1992, pp. 2 and 4.

<sup>25</sup> "FMI Studies Supermarkets' Role in Inner-City Initiatives", Supermarket News, July 27, 1992, p. 14



## CASE STUDIES

The case studies present evidence of how the cases selected as successful supermarket operations have dealt with issues peculiar to inner-city supermarkets. The discussion follows a pattern emphasizing several factors in the viability of the supermarket. One is the demonstrable need for the supermarket. A second factor is the impetus for the store. The sequential organizational activity is discussed. The impact of the local community and the cooperation of the city government are dealt with in the cases as relevant. In each case the concerns of volume of sales, labor and security are addressed to the degree that they were issues in that particular case.

### CASE 1:

#### NEWARK

*New Community Pathmark (1990)  
131 Bergen Street (at South Orange Avenue)  
Newark, New Jersey*

"Supermarket Chains Return to the City," headlined *USA Today* on September 15, 1990. "It's just your average 43,000 square foot suburban supermarket. Except that it's located on a corner where suburbanites fear to tread: the heart of Newark's Central Ward, a neighborhood that twenty three years ago was the center of a summer of riots and has been a symbol of urban blight ever since."

The supermarket, the New Community Pathmark, is at the heart of the New Community Neighborhood Shopping Center in Newark, New Jersey. Ninety-three thousand people reside within a one square mile area of Pathmark, thirty percent of whom are on public assistance. Average household income is \$14,000 and thirty five percent of the residents own automobiles. The supermarket's customer base also includes 6,800 employees of the University of Medicine and Dentistry of New Jersey, located across the street from the New Community Center, and employees of the Essex County courthouse.

For over twenty years residents of the Central Ward were surrounded by burned out and boarded up storefronts. They had no major supermarket. Where only one out of three residents owned a car, either they could spend two hours on a bus going to and from the nearest supermarket or pay the higher prices of their local small stores (about 38 percent higher prices).

The presence of a new supermarket in Central Ward Newark was as newsworthy as rain after a twenty year drought. How did it happen? Prior to the riots of 1967, in which 23 people died, Newark had built large numbers of low-income houses but had evicted three times as many families in favor of urban renewal, public

housing and highway development.

In the wake of the riots, a young priest stood in the rubble, and knew that the key to rebuilding the neighborhood was mobilization of the community. Within a year he began putting together what became the New Community Corporation, a minority, community-based, community-directed development organization aimed at regeneration of the Central Ward.

Monsignor Linder continued to build and to mobilize. By 1990, opening year of the New Community Pathmark Supermarket, the Corporation had developed day care facilities, affordable housing for over 6,000 residents, regular health services for over 1,300 neighborhood residents and continuous job placement services. They were serving annually three quarters of a million meals to the needy. They had organized a credit union, published a monthly newspaper and provided their own 24-hour-a-day security service for their network of activities.

New Community Pathmark Supermarket is the anchor store of the New Community Neighborhood Shopping Center located at Bergen Street and South Orange Avenue. It is jointly owned, one third by Supermarkets General Corporation, the parent company of Pathmark, and two thirds by the New Community Corporation. The \$16 million facility is 43,031 square feet. The store is flanked by World of Foods, an international food bazaar, Dunkin' Donuts and New Community Print and Copy Center. The supermarket includes a meat department, a delicatessen featuring cold cuts sliced to order, fresh fish, cheese, frozen foods and floral departments, and a service center with small appliances and pharmacy.

Doing a weekly volume of some \$600,000, New Community Pathmark employs 50 full-time and 214 part-time workers, almost all of whom reside within the community. Clerk training is done at the nearby Montgomery School. The screening and hiring of all employees from trainees to store management is done by a process which includes close working relationship of the community and Pathmark. New Community Pathmark is located within an urban enterprise zone established by the New Jersey state legislature. This allows the store to charge one half of the state sales tax on nonfood items. An additional benefit of the enterprise zone allows Pathmark to receive a \$1,500 tax credit for each Newark city resident hired who has been unemployed for three months.

New Community Corporation, the prime mover in establishing the Pathmark supermarket, initiated the New Community Shopping Center project in 1980. Ten years later, after the arduous work of linking the drive of community residents with resources of the private sector and assistance from local, state and federal governments, the Corporation opened the supermarket. At one point, in 1985, over 12,000 residents signed petitions declaring the need for a supermarket.

New Community Corporation financed construction of the New Community Shopping Center with an \$8.5 million loan from First Fidelity Bank and over \$7 million in long-term financing from Prudential. Financial assistance also was provided by loan/grant combinations from city, state and federal agencies.

Nearly two years after its grand opening, Pathmark continues to be "clean, well-run and busy." Its prices are competitive, its merchandise mix is excellent and the location of the store is convenient to residents of the community. Store security is maintained internally by a 27-unit camera surveillance system suspended in bubbles from the ceiling. Externally, uniformed private security guards control mechanical barriers that permit vehicles to enter and exit a parking lot rimmed by a high wall and iron fence. Extra outdoor lighting is also a security feature.

The New Community Pathmark is indeed a flagship which could be the model for any proposed low-income inner-city supermarket. It is an example of a community taking the initiative for its development and an illustration of the supermarket operator cooperating with the community in a venture that is profitable for both.



CASE 2:

**CHICAGO**

*Dominick's Finer Foods (1991)  
71st and Jeffery Boulevard  
Chicago, Illinois*

*Krystle Kleer  
Grand Plaza  
Dan Ryan Expressway at 55th St.  
Chicago, Illinois*

The centerpiece of Jeffery Plaza on Chicago's South Side is a 62,300 square foot Dominick's Finer Foods. The supermarket opened in April, 1990 and is doing an average weekly volume of \$500,000 with 35 percent of its business in food stamps.

Dominick's is the anchor of Jeffery Plaza, a \$10 million shopping facility of over 110,000 square feet, located at 71st Street and Jeffery Boulevard. Next door is Irving's Red Hots, a thriving locally owned franchise for hot dogs and quick sandwiches and one of approximately twenty smaller stores in the center.

The supermarket is upscale. Captivating displays of fresh produce, colorful, varied, abundant, engage shoppers as they enter the store. A video runs continuously to acquaint clientele with instructions on how to purchase and prepare specialty produce. There are items which appeal to Latino tastes; varieties of chilies and peppers, tropical fruits and juices. There are spices and seasonings peculiar to Asian cooking. And there is an abundance of fresh greens, sweet potatoes, okra for African and southern tastes. Poultry, beef, pork and all parts related are supplemented by a fresh fish department. Prepared deli foods are featured with daily specials and there is a fresh flower department. Flyers advertise specials and store-wide pricing is fair and competitive.

From observation the store is clean, well stocked and prides itself on excellent service. Personnel on a particular day were adequate in number and well trained for their jobs. In all features, the supermarket is comparable to the finest suburban Dominick's.

A Chicago institution for many years, Dominick's generally locates its stores in more compatible suburbia where running a grocery store is generally cheaper. According to a representative of South Shore Bank, one of the development partners, profit at the Jeffery Plaza Dominick's is somewhat lower than first anticipated due to higher costs for land and security.

How is it that this Dominick's Finer Foods became the anchor of an inner-city shopping center like Jeffery Plaza? Three factors are key. First a study was undertaken by The Neighborhood Institute (TNI), a local community organization and the South Shore

Bank, the catalyst for economic development in the South Side. The study determined that there were not enough retail shopping opportunities in the area. People had to go out of the area to purchase ordinary goods. As described in the TNI Report:

In 1983, TNI and the South Shore Bank engaged a consultant to evaluate the existing commercial strips in the community and to make recommendations about how to catalyze the development of new retail facilities of adequate size to alter the spending patterns of South Shore residents, who lacked retail facilities and amenities. ... In response to the study's findings and recommendations, TNI's for-profit real estate development affiliate, City Lands Corporation developed ... the first major commercial development built in South Shore, (and) created 310 jobs for community residents, giving a needed boost to small business and commercial activities.

The second factor was the growing recognition that a stabilizing of the economic situation of the neighborhood put its median income at slightly above the average median income for Chicago, according to 1987 census figures for the area around Jeffery Plaza. Figures obtained by CANDO (The Chicago Association of Neighborhood Development Organizations) "indicate that the estimated average household income within a two mile radius of the site (Jeffery Plaza) was \$25,252 in 1987, a sum that says there is a fair degree of prosperity in the immediate area. The same tabulations showed the median 1985 income for all of South Shore at \$17,886."<sup>26</sup>

Moreover, competition was non-existent. Dominick's was the only supermarket in the area.

Dominick's Finer Foods responded to the demonstrated market opportunity and it responded to the involvement of the neighborhood institutions, TNI and South Shore Bank. It also responded to another key influence. Mayor Harold Washington, then mayor of Chicago, invited Dominick's food chain to consider operating in the inner city of Chicago.

According to the story, Mayor Washington knew that to develop the shopping center, the supermarket which would anchor the center, and attract customers was all important. It was critical to the success of the center that this be an outstanding retail operation; professional, competitive, reputable and have excellent standards. Dominick's Finer Foods had a reputation for all these qualities.

Developers of Jeffery Plaza were City Lands Corporation, a subsidiary of Shorebank Corporation and the holding company of South Shore Bank, Trident Development Corporation and several private investors. Through their combined efforts the project

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<sup>26</sup>Allen, J. Lynn. *Chicago Tribune*. Sun Mar 6 1988 RE p.1

received \$2 million in federal money. That was funneled through the city, for site assemblage, relocation and demolition. Another \$950,000 Urban Development Action Grant (UDAG) loan was received.

Entry to Jeffery Plaza Shopping Center is open access to the 470 car parking lot. No extraordinary security precautions such as entry gates, iron fences, or police substation are visible. However, the Plaza is patrolled by private security and monitored electronically. Dominick's relies on combined private security plus store security including plain clothes guards.

Screening of prospective Dominick's employees is done largely by The Neighborhood Institute. Dominick's does its own training of the store employees, the large percentage of whom are from the resident community. The shopping center is estimated to have created a minimum of 300 jobs.

One major factor motivating the success of Dominick's and the entire Jeffery Plaza Shopping Center is that the neighborhood around the center is organized, in Chicago tradition, into block clubs. According to Dominick's management, if there is an issue, e.g., cleanliness, items out of stock or a security problem, the block club brings it to the manager's attention for action to resolve it. This mechanism provides an excellent communication medium for the store and the neighborhood.

Also community organizations like The Neighborhood Institute are another means of maintaining an on-going relationship between the neighborhood around Jeffery Plaza and the shopping center. TNI not only screens for jobs, it offers academic training through GED, literacy and pre-employment readiness.

Further, strong ties with the neighborhood are maintained by the President of City Lands Corporation, the for-profit developer and the Chairman of South Shore Bank, a neighborhood institution.

The pastor of St. Philip Neri, the Roman Catholic Church next door, feels that Jeffery Plaza and Dominick's are going very well. The center, he says, is functioning as a neighborhood "anchor and further stimulus for rehabilitation and development." That was the hope when the project was conceived.

A stark contrast to the success of Dominick's Finer Foods in Jeffery Plaza is the failure of Krystle Kleer Supermarket in Grand Plaza at 55th and Ryan Expressway. Of all the reasons the store does not work as a successful supermarket, or even a supermarket at all any more (owners have filed for Chapter 11), is the lack of professional supermarket management. The store has been a catastrophe. Located in the Grand Plaza shopping center, Krystle Kleer was designed to be the anchor store. It is the only store not working. The Save-On Drug Store, the department store and the cleaners are all thriving.

Krystle Kleer is a short walk from the Robert Taylor Homes, Chicago's largest public housing facility. The number of households in the Homes offers sufficient population density. The store's location at the Grand Avenue exit of the Ryan Expressway also established it in a dense traffic area. The center has a sizeable parking lot, so that access to the store by automobile is not a problem. Down the street three blocks is a large police car parking facility which further creates traffic in and out of the area. Security in the center is visible. Uniformed guards patrol the parking lot and a sizeable Chicago Police sign is on a building located in the middle of the shopping center. Grand Plaza is dedicated to Mayor Harold Washington who supported the development of it.

A major error developed when a local politician designated the supermarket operator. Rhetoric was substituted for genuine community involvement and participation in the selection process. The strength and interests of the Third Ward Partnership, the local community organization, were not up to monitoring the performance of Krystle Kleer. Within one year the market slid from an achievement accompanied by great expectation to a disaster.

CASE 3:

**MIAMI**  
*Winn Dixie (1985)*  
*Edison Plaza*  
*Liberty City, Miami*

Miami is a city of contrasts. It is home for thousands of retirees and a magnet for migrants from the Caribbean and Latin America. The city is incredibly wealthy and shockingly poor. Some observers report that the city offers everyone opportunity and others note that minorities have a chance for nothing but welfare. Yet one analyst noted tough minded practical efforts within Miami's minority community to promote social and economic independence. Liberty City is one such example.

In May 1990 Edison Plaza's Pantry Pride supermarket in Liberty City was ravaged during riots. This occurred in one of four riots that swept through parts of Miami during the 1980s. Pantry Pride never reopened and the community's nearest shopping center was four miles away. While the situation was thought to be generally hopeless, the Tacolcy Economic Development Corporation (TEDC) decided to renovate Edison Plaza and return an excellent supermarket to the area.

TEDC is a non-profit federally tax exempt community development organization committed to a long-range development strategy including venture development and management, economic planning and advocacy, commercial revitalization and financial services. The community development corporation is governed by a nine person board of directors each of whom has had at least five years business ownership and management experience. Its president and CEO is a recent MacArthur Fellow awardee.

Encouraged by a start-up grant from LISC (Local Initiative Support Corporation), TEDC began the effort to create a neighborhood shopping center. The redevelopment of Edison Plaza represented the only major commercial construction in Liberty City in some 20 years.

TEDC, encouraged and assisted by three Harvard MBAs, one of whom became one of the nation's foremost retail food executives, first had to address the existing stereotype that everybody in Liberty City received welfare. Their objective was to demonstrate that the Edison Plaza area represented a vital market opportunity for businesses, particularly a supermarket. Rejecting ordinary approaches to market surveys, a company retained by the Dade County Office of Community and Economic Development decided to look into 40 factors in an effort to prove that there was more to Liberty City than welfare. Taken into consideration were not only household income, but home ownership, family size, ages, as well as the number and type of magazines to which the household subscribed.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins or other markings visible.

could be marketed to successfully. It also identified some five hundred products and services, from IRA accounts, video tape rentals to racquetball equipment, that were desirable to large segments of the community.

Encouraged by the study, augmented by the leadership of then Mayor of Miami, Maurice Ferre, and supplemented by pro-bono legal assistance, TEDC raised over \$2 million in development financing. Among this was, for example, an \$800,000 grant from the Federal Economic Development Administration.

Negotiations for redevelopment of the Edison Plaza led to a signed lease with Winn Dixie, the country's fourth largest supermarket chain, which became the Plaza's anchor store of the 47,000 square foot neighborhood shopping center. Winn Dixie has a good reputation for hiring minorities and for contributing to causes ranging from the United Negro College Fund to the Urban League. By its own admission, however, profit, not philanthropy motivated the company to open there. The center's nine other stores, including a black owned McDonald's franchise, were catalyzed by the supermarket.

During construction phase an average of 51 persons were employed on a regular basis. The 32,000 square foot conventional Winn Dixie supermarket now employs about 100 persons, seventy-five of whom were selected from some 1,500 community residents who applied for work. Winn Dixie's stated policy is to hire mainly local residents. More than 30 other workers are employed in other center stores. These do not include employees of other retail and service businesses which, because of the center's success, have located near the center.

Since opening week in March 1985, Edison Plaza has attracted approximately 15,000 customers per week. The center's combined sales are estimated to be over \$15 million annually. Its combined real estate and sales taxes return over \$325,000 annually to the

CASE 4:

**KANSAS CITY**

*Country Mart Food Warehouse (1986)  
Linwood Shopping Center  
Kansas City, Missouri*

When filmmakers wanted to depict the site of the aftermath of a nuclear holocaust, they chose Linwood in Kansas City, Missouri. Situated at the center of the location was an abandoned decaying hospital, Old St. Joseph's at Linwood and Prospect. The hospital, like supermarkets and shopping centers all over America, had moved to suburbia after 60 years of operation. St. Joseph Hospital's departure contributed to the community loss, decline of commercial property values, tax base erosion and housing blight. It also contributed to the movement of neighborhood residents to other parts of the city.

Due to the efforts of the Community Development Corporation of Kansas City, (CDC-KC) the area has been reborn as Linwood Shopping Center. CDC-KC is a not-for-profit community development agency committed to revitalizing its target community through commercial, housing and industrial development projects while assisting minority business entrepreneurs.

CDC-KC acquired demographic data on the primary marketing area as they deliberated the renovation of the area. What they found was this:

*The Linwood Shopping Center location, a two-block area at the southwest corner of Linwood and Prospect, is encompassed within eleven (11) Kansas City neighborhoods. ... The primary marketing area (pma) has the highest rate of unemployment in the city of Kansas City, Missouri, ranging from 11.6% to 25.2%. The average unemployment rate is 18.7% compared to the Kansas City Metropolitan Area average rate of 9.3%. Median household income in the primary marketing area is less than \$10,000. The total residential population of 32,953 reflects a decrease of 19,475 people between 1970 and 1980.<sup>27</sup>*

Marketing and feasibility studies were conducted to determine the best use for the site. The inner-city was in dire need of a facility where area residents could purchase essential goods and services without having to travel five to ten miles to get them. Thus a shopping center was agreed on as the most feasible use of the site. Predevelopment costs were identified and acquired and the

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<sup>27</sup>*The Linwood Shopping Center - A Dream, A Reality.* CDC-KC.

existing structure was demolished.

The overall objective of CDC-KC was to revitalize the central city neighborhood and increase community self-sufficiency through the creation and retention of jobs, as well as stimulation of an expanded tax base. To accomplish those objectives, CDC-KC formed a co-developer partnership with the Baptist Ministers Union of Kansas City. The Ministers Union represented 100 local churches and the partnership captured support from every sector: local and federal community organizations; local, state and national governments; local and national foundations; and local and national financial institutions. Among other contributions, these financial institutions raised \$5.5 million for the shopping center renovation project.

The Linwood Shopping Center that emerged is a modern 80,000 square foot retail complex anchored by Country Mart Food Warehouse. This major supermarket covers 38,000 square feet. It is surrounded by Goodyear Automobile and Tire Service Center, Reliable Drugs, several other stores and two fast food restaurants, Burger King and Popeye's Fried Chicken. The store's weekly volume is \$350,000. Approximately \$100,000 in food stamps and WIC vouchers are redeemed weekly. Country Mart Food Warehouse is an independent supermarket served by Associated Grocers of Kansas City. The wholesaler trains store employees, the largest percentage of whom are from the local community.

As part of the overall Linwood area development plan, CDC-KC also converted a blighted apartment building into a 4-story modern office complex that houses the CDC-KC administrative and CDC-KCs business development programs offices, a construction company, a communications company, a travel agency, an insurance agency and an architectural firm. During construction, 250 temporary jobs were created and full-time-equivalent permanent employment is about 200. This economic base has revitalized the neighborhood and provided an improved self sufficiency to the community.



Case 5:

**NEW YORK**

*Restoration Pathmark (1978)  
Bedford Stuyvesant  
Brooklyn, New York*

*C-Town Store (1990)  
110th ST., at Central Park  
Harlem, New York*

*Waldbaum's (1991)  
161st St. and Grand Concourse  
The Bronx, New York*

**RESTORATION PATHMARK**

In 1966 Senator Robert Kennedy visited Bedford Stuyvesant, a Brooklyn community of 300,000 persons. He was shocked by the blight and decay of homes, depressed commercial areas and crumbling public infrastructure. What made his visit different from those of so many other public officials was that he also saw potential resources which could make a difference. He saw the people and recognized their needs. He also saw concerned citizens who believed in their community and wanted to make it work. He knew that community regeneration would occur only if a mechanism could be developed which would link human resources with capital resources.

With the bipartisan support of New York's senior senator, Jacob Javits, an amendment to the Economic Opportunity Act of 1964 was proposed and enacted which established the Special Impact Program. This program provided the public funding for community economic development activities. It was this program which funded the Bedford Stuyvesant Restoration Corporation, the nation's first community development corporation and which celebrated its silver anniversary in June, 1992.

Restoration, as it is called, has:

- attracted over \$350 million for Bedford Stuyvesant. It is a model for community economic development the world over.
- developed and constructed a \$15 million commercial center in the heart of the community. This is the first shopping mall ever developed for and with low-income minority people.
- established equity investments and joint ventures with private sector partners including 67 percent ownership in a Pathmark supermarket with annual sales of some \$25 million.

The 20,000 square foot supermarket is owned by Restoration Supermarket Corporation, a joint venture between Supermarkets General Corporation and Restoration, which is in its fourteenth year of operation in Restoration Plaza. The supermarket employs 136 local residents and is listed in *Black Enterprise* as the 33rd largest Black-owned business in the United States.

The supermarket, together with Pathmark Discount Drugstore, anchors Restoration Plaza, a 300,000 square foot center with some 60 commercial tenants which provide a wide range of goods and services for nearby households.

In 1990, Restoration negotiated a management agreement with Supermarkets General Corporation which improves both the quality of service and the profitability of the enterprise. Also during 1990 a special joint training program was established between Restoration Supermarket Corporation and Job TAP (testing, assessment and placement services for residents seeking jobs) to provide recruiting and training outreach for supermarket employees. With the assistance of the local state senator's office, Restoration was able to obtain a Women, Infants and Children (WIC) Program for the supermarket. This service has made shopping at Pathmark more accessible to many low-income residents of the community.

Restoration, a first in many ways, continues to develop. Beyond that it has served as a model for many more community development efforts in other cities including Miami, Newark, Chicago, Los Angeles, Kansas City.

#### C-TOWN STORE

In New York, three blocks is a long way after dusk when you are walking and carrying groceries. So there have to be alternatives to 60,000 square foot supermarkets located with 1,200 car parking lots. There also have to be alternatives to cramped, overpriced, understocked groceries or bodegas so common in the inner-city.

New York has one alternative in the form of C-Town. C-Town is an alliance of 167 independently owned grocers. These small independent grocers were organized as a voluntary chain by a wholesale grocer, Krasdale Foods. Krasdale sells products to the grocery group and provides them with marketing and management counsel. An arrangement of this type gives the smaller independent grocers the advantage of buying goods at prices comparable to the major supermarket chains. Membership in the C-Town Stores allows them to sell at comparable prices, provided they have the operational, accounting and marketing abilities comparable to the chains, and which Krasdale can provide them as members.

The New York Times recently featured one such C-Town store,

located on 110th St. where Central Park meets Harlem. This supermarket is owned by Mariano Diaz who immigrated to New York from the Dominican Republic in the mid 1970s. After arriving in the United States, Diaz went to work at his uncle's food store in Jamaica, Queens. Soon he saved enough to buy part ownership in another store. In 1982 he bought his own store.

According to Diaz, he was scouting the neighborhood for a larger store when he saw new apartment buildings rising on 110th Street. He noted the lack of a supermarket in a several block area. He identified the opportunity of establishing a supermarket on the ground floor of the apartment building and arranged with Krasdale Foods to become a C-Town owner. His C-Town supermarket does \$4 million annually in a small facility of 11,000 square feet. Its food stamp volume is over 35 percent. The supermarket offers satisfactory lines of most produce and groceries.

#### WALDBAUM'S

Waldbaum's is as large as C-Town is small yet each is a most adequate inner-city supermarket serving low-income populations. C-Town is independently owned. Waldbaum is owned by a large chain, and Restoration Pathmark is a joint venture between a food chain and a local community development corporation.

A 60,000 square foot supermarket, the Waldbaum's store has estimated sales of \$1 million weekly. In the opening week 35,000 thousand customers came through the store, most of whom walked there. The store is open 24 hours a day, 7 days a week. Waldbaum's prices are from 20 to 30 percent below those charged by the nearby bodegas and other local groceries. Over 1.5 million customers were anticipated during the first year of operation.

According to Stanley Lang, president of Waldbaum's "we don't have any major supermarkets as competition,"<sup>28</sup> in the three mile radius of the store in the densely populated Bronx. The 10 acre Grand Concourse Plaza site in which Waldbaum's is located between public housing projects and the Bronx criminal courts building, insures a constant flow of traffic into the store. But, Lang says, "volume doesn't necessarily relate to profit," because of the higher costs of security and payroll.

The store opened with 425 employees and that number is expected to grow to approximately 600. Most of the employees live in the area. Security is maintained by Waldbaum's own security force supported by the Concourse Plaza Mall's security teams of about 20 additional guards for the 1,200 space parking lot. Teams of at least six security guards, in uniform and plain clothes, patrol the supermarket store and keep watch round the clock.

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<sup>28</sup> *Supermarket Business*, 1991.

At the time of the negotiations for the Grand Concourse Plaza and supermarket, plans for a new \$200 million police academy were on track. The city of New York was to have built the new facility a few blocks away from the proposed plaza site. However, in a subsequent decision the city opted instead to fix up the existing police academy in Manhattan, leaving the mall with a reduced prospective customer base.

The Grand Concourse Plaza Waldbaum's is the chain's 7th urban redevelopment project, all built within the last 10 years. The Bronx store is Waldbaum's biggest attempt at ethnic merchandising. It caters to a richly diverse ethnic community by featuring everything from prepared fajitas to guava turnovers, from lox and bagels to muchines de yeca.

The Grand Concourse Mall was built with \$150 million of private funds. It opened in May, 1991 and includes forty other stores besides Waldbaum's.

CASE 6:

**CLEVELAND**

*Finast Supermarkets (1990)*

*Four locations: 6711 Broadway; 11201 Buckeye; Lakeview & Superior;  
Lee Road & Harvard  
Cleveland, Ohio*

Cleveland, the nation's 23rd largest city, has a population of 570,000 people and almost 200,000 participants in the Food Stamp program. The city's per capita income of \$18,168 is slightly above the national average.

On the evening of November 21, 1991, network television's 20/20 featured a segment detailing the crime rate in general and murder rates in particular of the war zones of Cleveland. One interviewer suggested that citizens had two alternatives: hide in their houses or run to the suburbs.

First National Supermarkets, Inc. had another solution - faith and investment in the community. The food chain demonstrated its belief in the community by investing over \$24 million within one year in four major supermarkets. Two of the openings of these superstores in the heart of Cleveland coincided with the fourth anniversary of the creation of the Finast Chain.

Finast was founded by Julie Kravitz, who took over Cleveland's Pick-N-Pay chain in 1974. He enlarged that with the acquisition of First National Supermarkets in 1978. In the early 1970s when supermarkets all over America were abandoning city locations, Kravitz promised to stay in Cleveland. These new stores were a major realization of that commitment to Cleveland residents to provide them with first class shopping experiences for years to come.

The first Finast at 6711 Broadway, involved a \$3.5 million remodelling effort and created over 70 new jobs in the area. The store size increased to 47,000 square feet, over one third larger than its former size. The remodelling effort included building new service, floral, meat deli and bakery departments and an entirely new decor.

The second store, the Buckeye Finast, cost an investment of \$6 million and created 250 jobs. This 58,000 square foot store is the first in new Buckeye Plaza. The effort brings more than an excellent supermarket to the area, it represents a major investment and many jobs for the city. It helps to rejuvenate a second Cleveland neighborhood as the Broadway store did another.

The third opening by Finast was in November, 1990, only five months after the other two. This one was a 66,000 square foot superstore in Garrett Square and was a joint venture with private developers which cost \$6 million. It is one of the largest

minority-owned properties in Cleveland. The store is located next to an 80 unit housing project. The supermarket created over 240 new jobs in the Glenville neighborhood development project. It is seen by the company as a contributing factor to the solution to Cleveland's economic challenges.

On Saint Patrick's Day, 1991, Finast opened its fourth remodelled supermarket on Cleveland's East Side at Lee Road and Harvard. The Finast there is a 61,000 square foot supermarket renovated at a cost of \$6 million. Over 170 jobs were created and the opening of the supermarket established a foundation for other businesses in the Lee Harvard Shopping Center.

There are many stories associated with the commitment of Finast Supermarkets to the City of Cleveland. One that is shared here is perhaps less dramatic than others. However, in terms of describing the quality of the supermarket it is significant.

With Finast, as with all supermarkets, there is much more to the operation than the publicly visible retail store. There are, for example, the wholesale distribution facilities which provide the store with products. First National, in telling its story, particularly notes that its new Cleveland produce distribution facility contains state-of-the-art refrigeration and airflow systems, as well as computer-controlled fruit ripening rooms. While it is true that this system serves all Ohio Finast Stores, the performance of the system is of special importance to Finast's inner-city stores. It allows the freshest and best of produce to be available for delivery to the inner-city. Choice, fresh produce has not been nor is it always now the norm for inner-city residents around the country.

CASE 7:

LOS ANGELES

*The Boys Market (1981)  
Vermont Slauson Shopping Center  
Los Angeles, California*

*The Boys-Viva Market (1984)  
Martin Luther King, Jr. Shopping Center  
1651 E. 103rd Street  
Watts, California*

*The Boys Market (1987)  
Willowbrook Shopping Center - The Kenneth Hahn Plaza  
11840 S. Wilmington Ave.  
Compton, California*

Los Angeles is important because of the unique role played by the city in taking the initiative to address food needs of the inner-city poor. The Los Angeles city government, in the person of Mayor Bradley, encouraged the bold, innovative approach of a developer who combines architectural creativity, sophisticated business sense and genuine social concern to meet the city's retail food distribution needs among low-income inner-city residents.

The Los Angeles story chosen for this study is really the story of three supermarkets in three shopping centers in or near the Watts riots of 1965, all within several miles of each other, all thriving, each anchored by a Boys Market or a Boys Viva. Boys Viva is the name given to Boys Markets having a Latino ethnic dimension. Another food chain in Los Angeles, Tianguis, is creating a supermarket business to attract the ethnic market, particularly the Latinos. However, since its focus is primarily ethnic and based on demographic realities, and not necessarily inner-city low-income shoppers, the Los Angeles case focuses on Boys Markets in the inner-city neighborhoods of Watts and South Central LA.

To understand the meaning of the economic development represented by the three shopping centers in our discussion it is helpful to go back to 1965. In that year the Watts neighborhood blew apart. This section, a center of the city's, at that time, black population, exploded into prominence. Anger and frustration over decay, blight, decline of the residential and commercial sectors seethed, and Watts literally burned.

Twenty-five years later in 1992, just several blocks from the site of the Watts Tower, the Martin Luther King, Jr. Shopping Center is a focus of the commercial energy of the Watts neighborhood. A statement of accomplishment of the combined talents of three sectors, city government, a local developer and an experienced retail food chain, the center has been enormously successful in providing neighborhood residents a reliable place to

shop. Besides the Martin Luther King, Jr. Center, two others were developed using a similar model, the Vermont Slauson Center at the edge of Watts and the Willowbrook Community Shopping Center, dedicated as the Kenneth Hahn Plaza.

#### VERMONT SLAUSON

The first shopping center of its kind to be developed, the Vermont Slauson Center opened in 1981. Earlier, the Sears Department Store that had occupied the corner of Vermont and Slauson for more than 50 years closed. That was in the late 70s.

Sears was a retail establishment that represented to families not only a place to purchase goods, but a link into the network of American life. Sears was where school clothes, work overalls, mattresses and the family refrigerator were bought, on time. Sears' closing down reiterated the isolation and lack of hope in the community. The "great fortress of a building," as it was described by a community resident, was dark. And so was the prospect for economic development in the area. Sears' leaving meant not only another empty building in the neighborhood, it communicated a giving up on the viability of the area as a place to live, shop and do the business of ordinary daily life.

Upon hearing word of Sears' imminent closing, Mayor Tom Bradley phoned its management to tell them he was very unhappy about its leaving the area. Bradley was told by the company that he could have the building including the land, if he would develop it. He accepted without hesitation, and after that began contacting his associates in the retail business. He approached every major retailer he could think of at least twice trying to interest a major tenant for the building. What he had assumed would be a simple task turned tough. Nobody wanted to do business in the area. Boy's Market was approached by the Mayor to become part of the Vermont Slauson commercial development on the first round. It was reluctant. At the end of Bradley's second round of calls to all the possible retailers, The Boy's Markets, a supermarket chain which had never completely left the inner city, relented. It was reluctant still, but Boys Market would give it a try. Next Bradley needed a developer.

Alexander Haagen had grown up in the Watts area. He knew the area and recognized that his roots were there. His commercial development business was in nearby Manhattan Beach and his wife and business consultant were in favor of the project. Those reasons conspired to insure Haagen's commitment to the project. It was the beginning of a long business relationship with the area and the subsequent development of four major shopping centers that are indisputably profitable.

"Sears couldn't make a go of it," developer Haagen says, "No one could, in that building in that neighborhood." When he was



approached by Mayor Bradley to help remodel the Sears building, he politely declined. The building had to go, he said, and the other provision Haagen insisted on was a fence.

Creating a secure environment, a sort of oasis, was a major issue for him for a shopping development in the area. Haagen promoted use of an architectural concept of "defensible space." He adapted the idea of a fence from nearby University of Southern California which effectively erected a see-through wrought iron fence to establish boundaries and secure the space within its perimeters. Reaction from the community was dismal. The security measures described by Haagen were perceived to be discriminatory and loathsome.

Haagen enlisted the help of neighborhood community organizations and worked with them to analyze why security and a secured space might be in the best interests of the local shoppers and merchants. Once he had their agreement he collaborated with them to convey to the local community the merits of defensible space. Before long, the community gave its approval to proceed with the secured space plan.

Around the new shopping complex Haagen installed six foot wrought iron fences, gates that could be closed and locked when the center was not functioning, observation cameras and electronic monitoring devices. He incorporated the use of a trained private

favorably with the Urban Land Institute's 1987 median sales per square foot of \$144 in the average community center.

#### MARTIN LUTHER KING, JR. CENTER

Built on 10 acres at a cost of \$11 million, the Martin Luther King, Jr. Center is the second successful effort of the Los Angeles coalition of city government, the local community, an innovative developer and a professional supermarket chain. The MLK Center is anchored by the 38,000 square foot Boy's Viva Market and a Sav-on Drug Store. Those stores plus the 16 other retail establishments in the center employ over 500 people, the majority of whom are Watts residents. The hiring of local area residents is tied to grant money which built the center and is under regular review. Development and construction of the Martin Luther King, Jr. Community Shopping Center were donated as gifts to the City of Los Angeles by the developer and center profits return to the city.

After completion of the first center, Haagen reduced start-up and operating costs for other centers by participating in such programs as Urban Development Action Grants, Economic Development Administration Grants, Community Development Block Grants, city infrastructure grants, tax-free Industrial Development Bonds, Enterprise Zone tax write-offs and tax increment financing. Though not all of these are still available, the issue, Haagen has stated, is to recognize that subsidies are needed to start projects like Vermont-Slauson.

The Boy's Market alone estimated a gross of \$15 million annually in 1985, the first year the center was open. Although no precise figures are available from the Boys, it and Sav-on Drug Store are the primary reasons people shop regularly at the center. The Boys is a full-service supermarket, attractive, clean, well-stocked and well-managed. Prices there tend to be slightly higher than in some of the surrounding stores to offset higher operating costs.

#### WILLOWBROOK

Ted Watkins, Watts Labor Community Action Committee (WLCAC) leader since 1967, proudly shows off the Willowbrook Community Shopping Center dedicated as the Kenneth Hahn Plaza. WLCAC owns 25 percent of the \$23 million Center. A percentage of profits from the center return to the WLCAC. The Willowbrook Community Shopping Center has 28 stores set on 14 acres. It includes a branch of the Willowbrook Public Library. A subsidized trolley is available for residents who depend on public transportation to get to the Center.

Los Angeles presents, in these three commercial centers, a successful version of the collaborative efforts of the local community, city and federal government and the commercial industry.

recognized the need for shopping opportunities. Entering into a partnership with a non-profit organization he established the first center. Today, Vermont Slauson is "flourishing, . . . business is in excess of \$300 per square foot. The Martin Luther King, Jr. Center is highly profitable, and the Kenneth Hahn Center is good but not great but anticipating the completion of the light rail line adjacent to it."<sup>29</sup>

With the interests of each achieved and each profiting, the communities of Watts proper and adjacent Willowbrook and South Central have created thriving commercial redevelopment with as basic a need as a supermarket at the center. Commitments of all those involved, the Haagen Company, Boys Markets and the city of Los Angeles are solid after the 1992 riots. Of the three centers only the Martin Luther King, Jr. Center was partially burned and reopened one month later. The other two stores experienced some looting but were reopened immediately. At these two centers security fences and gates held. At all centers, the community was present the morning after the riots working to clean and protect their jobs and investment.

The Boys is an experienced inner-city supermarket chain in search of future sites in inner-city Los Angeles. They project an aggressive, expansive image in terms of its future there. Interviewed after the riots, one of its top executives said that The Boys commitment to inner-city LA was "stronger than ever." They are actively seeking to recruit and train store management from the local area. The managers of these stores featured in these cases were enthusiastic about their future career prospects with The Boys.

Haagen Company is experienced in inner-city Los Angeles. It has recently opened a fourth center, Crenshaw Hills. In that situation, in deference to the expressed wishes of the local community, Luckys Supermarket is one of the anchor stores. The community voted in favor of Luckys, not because they are dissatisfied with The Boys, but because they felt the competition would be in its best interest.

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<sup>29</sup>Krikorian, Greg. *The Minority Community's Shopping Mall Hard Sell* New York Times May 20, 1990.

CASE 8:

**SAN FRANCISCO**

*Cala Foods, Inc., (1992)*

*Hunter's Point, San Francisco, California*

Third Avenue, the commercial strip of Bayview - Hunters Point, San Francisco has been plagued with vacant stores and graffiti. The neighborhood is known for its high unemployment, drive-by shootings and drug abuse. The situation was sufficiently depressing to cause Safeway to close its 29,000 square foot supermarket in 1986 citing high operating costs. Safeway was not alone. Wells Fargo Bank and McDonald's also closed.

No one in the community, which is located near Candlestick Park, denied the negatives. However, the neighborhood was left without a full service supermarket for its 30,000 low to medium income families, 90 percent of whom are minorities.

Bayview-Hunters Point, whatever its troubles and blighted commercial sector, was not without merit. More than 56 percent of its 9,000 housing units were owner occupied and 80 percent of its housing is single family units. Median household income is slightly over \$25,000 annually. That is relatively high compared to some other parts of the country, but \$10,000 below the median income of the San Francisco area.

The community made a decision. It would no longer continue to travel out of the community to spend its estimated \$90 million of annual retail sales. That decision was articulated by the San Francisco Organizing Project, a citizen's group which represents 23 community organizations. It sought help from City Hall. Art Agnos, candidate for Mayor of San Francisco, promised to help when elected. He kept his promise.

With Mayor Agnos' support the San Francisco Redevelopment Agency put \$4 million into the purchase of the Williams Avenue site abandoned by Safeway. The Mayor then invited some 50 supermarket organizations to respond to a request for interest.

Cala Foods, Inc. was one respondent who agreed to rehabilitate the old supermarket at no expense to the city. Estimated rehabilitation costs approached \$1.5 million. The City provided a \$500,000 leasehold loan for 10 years at 12 percent interest.

The project called for Cala Foods, Inc. (a sister company to Boys Markets) to rehabilitate the abandoned facility and operate a full-service supermarket. What resulted was a twenty-four hour a day, full-service supermarket with check cashing and utility bill payment services.

Some 85 jobs were created, of which 75 percent went to minority residents who were trained by Cala Foods. The food chain

was able to take advantage of an employment opportunity provided by a special grant from the Private Industry Council. The grant enabled participants to receive job training at full rates of pay.

Mayor Agnos predicted in 1990 that the development of Cala Foods, Inc. in the Bayview Hunters Point area would be a win-win situation for everyone involved. When Cala Foods opened in January, 1992, that prediction was realized. Cala is a profitable, full-service supermarket and the residents of Bayview-Hunters Point once again have access to a variety of reasonably priced, fresh food.

Twenty years ago in Houston it was virtually impossible to find an adequate supermarket in low-income, inner-city sections of the city. The city was at an in-between time. The leading local chain was being hammered by competition from newly-arriving national chains. These newcomers bought some locations from departing chains while building large ultramodern stores in more wealthy locations in the suburbs. The inner city of Houston was not part of this new agenda and the stores there declined and closed. Low-income shoppers had to drive long distances to find a supermarket which would give them the advantages of price, variety and service. Otherwise, their food shopping choices were small, less competitive neighborhood stores.

Then, in 1972, a supermarket called Fiesta opened in a heavily populated Mexican-American area. It was news, and word spread rapidly through the low-income Latino community. Fiesta was not a typical barrio mom and pop. The first location at the corner of Quitman and Holman was an immediate success.

"Nobody was catering to the Mexican-American," says Don Bonham, founder and president. He and his partner decided to do it. Fiesta advertised itself in bold colors as what it was, a fiesta market, a grocery with the flavor of a traditional Mexican market. Rich color prevailed in the mounds of fresh produce which were characteristic of the store. Not only was there an abundance of tropical produce, but many varieties of fruits, vegetables, spices, fresh tortillas, juices, prepared ethnic entrees and special non-grocery items as well. All these products appealed especially to the store's Mexican and Central American shoppers. Word spread that if you were searching for ingredients for ethnic dishes, Fiesta had them.

Huge "Bienvenidos" banners welcomed shoppers attracted by the products, the prices and the locations. This targeted ethnic appeal singled out Fiesta from other chains, and created the popularity that led to initial success.

Bonham began with the intention of opening a supermarket in Houston's inner city. He anticipated carrying products that Mexican Americans and other Latinos, particularly the newly-arrived, knew and wanted. He intended to offer those products at prices they could afford and in a neighborhood that was accessible and familiar. Bonham's own words best describe the Fiesta philosophy of business.

"We went into business to give the customers more than they expected - better value, better service and more variety. Inner-city customers suffer from not being as

mobile as their suburban counterparts. Comparison shopping is difficult. They also need more goods to choose from for one-stop family shopping."

Bonham saw his supermarket venture as a successful operation with little or no competition. If others had thought of this concept, they had not yet dared do it. No one in Houston had so squarely faced the issues of inner-city supermarkets in low-income neighborhoods. To Bonham the challenge was to run this particular kind of store at a profit and to turn a location in a minority neighborhood to competitive advantage.

Fiesta is a story in reverse. The food chain originated in the inner-city and gradually expanded outward, becoming a vigorous competitor to more traditional upscale supermarkets. With sales now at about \$600 million from 23 stores, Fiesta ranks fourth in Houston's highly competitive food marketing area.

When questioned about security as an issue for Fiesta supermarkets in acknowledged high crime areas of Houston, Bonham replied that it was not a major issue. "We do not have much of a security problem," he said. Two policies are responsible for that. First, Bonham contends that one of the most effective means of lowering the security risk in the inner city is Fiesta's determination to build a solid reputation for fairness in pricing and policies among members of the community. The Fiesta Markets take serious and effective steps to be perceived as a business that is fair to its customers and responsible to the community. In addition to running its stores in a competent, professional manner, Fiesta management extends itself to the local communities in a variety of ways. Fiesta contributes both to the local communities it serves and to the larger community of the City.

The second aspect of Fiesta's security strategy functions also very efficiently. The store hires and trains its own store security teams who supervise internal and external security matters. In general with regard to security, Fiesta Markets project respect for the communities they serve, and a confident ability to handle normal and typical store security problems.

Fiesta has retained its inner-city locations as well as locating in the suburbs near heavy concentrations of various ethnic populations. It has managed to provide supermarkets to areas that have not been adequately served by others. It has trained hundreds of persons who might not otherwise have entered the supermarket industry. Fiesta has popularized an acceptance of diverse cultures through appreciation of diverse ethnic foods -- Latin, Asian and African-American. Since most Fiesta Markets are well-situated near freeways, their presence is highly visible. The huge red, white and green Fiesta parrot logo and signs are easily spotted from Interstate 10, I-45 and Highway 59.

The original "Bienvenidos" signs are now in seven languages.

Unlike many of the other successful cases cited, Fiesta has received little assistance from the city of Houston nor has the chain any formal affiliation with a community development organization, although it is open to both. The reception the City of Dallas is giving Fiesta which is opening 8 supermarkets to serve low-income, inner-city residents represents a best-case scenario of how cities can augment supermarket initiatives in the inner city.



CASE 10:

WASHINGTON, D.C.  
Giant Foods  
O and 8th Street, NW  
Washington, DC

Safeway  
322 40th Street, NE  
East River Park Shopping Center  
Washington, DC

Mega Foods  
625 H Street, NE  
Washington, DC

#### GIANT FOODS

The Giant Foods supermarket located in the Shaw neighborhood of Washington, DC is a 36,000 square foot inner-city supermarket doing some \$400,000 each week in volume. The impetus for the store came when the city's Mayor Washington called Giant's Chairman and suggested that Giant open a supermarket to serve the Shaw area. Giant's chairman replied that they would do that and a joint venture was arranged. It resulted in Giant Foods leasing the store from the Development Corporation of the District of Columbia.

Ten years later the store is a viable supermarket. The city of Washington's investment in Giant-Shaw has been transferred to the Greater Shaw Community Development Corporation. This enabled the DC Development Corporation to reinvest its funds in other projects.

#### SAFEWAY

In another part of Washington, just east of the Anacostia River, in an area called "Dodge City" because of rampant street crime and violence, there is situated an urban oasis, the East River Park Shopping Center. Included as anchor for this 150,000 square foot center is a Safeway Supermarket. The store's volume is \$225,000 weekly and the supermarket serves some of Washington's poorest and most neglected citizens. It exists because of the leadership of the Marshall Heights Community Development Organization (MHCDO).

The dream of MHCDO was to make the shopping center a cornerstone for revitalization along the Anacostia River. The community organization also was able to persuade Citicorp to open the first new bank branch in the area. Citicorp came in after Safeway agreed to anchor the center.

Much credit for East River Center goes to MHCDO and its exceptional leader, Lloyd Smith. Smith believed that the area could have a better future, and that it could come about through

economic development and unemployment assistance. As is typical in all the cases, doing one or two things is never enough. So MHCD0 has engaged in a number of undertakings: rebuilding apartments and building new homes; establishing a coordinated effort with DEA and local police to rid the area of drug activities; developing an industrial park; and many other activities.

#### MEGA FOODS

A contrast to these two Washington supermarkets is Mega Foods. Mega Foods was a 30,000 square foot supermarket which opened in 1988 on H Street, NE, not far from the United States Capitol and a few blocks from Union Station. The store opened with great fanfare, and Mega Foods was touted as the District's new grocer with a significant amount of city assistance.

Problems surfaced immediately. According to informed observers it was the wrong store, too large, a veritable warehouse. It was at the wrong place, poor traffic patterns. There was too much political influence brought to bear, so that its management never quite got control of the situation. The store folded in 1990. It reopened under new management, but too many nearly empty shelves and closed departments reminded visitors that just opening a supermarket in the inner-city is far from enough. "If we build it, they will come" did not apply here. It has recently closed again.

Mega Foods is Washington's testament to the complex play of factors that must be negotiated in creating a viable inner-city supermarket. A survey of the stores reminds one of the contrasts between the sharp management style at Pathmark, or the eager, hungry-for-success attitude of C-Town, the New York City independent as well as Boys-Viva, the Los Angeles chain. One is reminded of the interest and dedication of leadership of the Marshall Heights Community Development Organization and the creative energy of members of the New Community Development Corporation in going after financing to participate in ownership of the supermarket. One was reminded of Kansas City, Miami and Chicago where the initiative, organizational procedure and resolution of problems of supermarkets in the inner-city were important enough to attract the attention of key members of the city government.



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